



THE CASE AGAINST THE SPECULATIVE MARKETING OF GRAIN

by
Leonard D. Nesbitt

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Superintendent of Publicity
Alberta Wheat Pool
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The farmers' main complaints against the speculative system of grain marketing are its uncertainty and instability. The system is built upon scarcity. In order to obtain good prices, the volume offered for sale must be limited. When crops are good and production high, prices go down. When failures occur and wheat--the main food of hundreds of millions of people--is produced in limited volume, prices soar. This results in wide variations in price, not only from year to year, from month to month, from week to week and from day to day, but actually from minute to minute. More farmers have encountered economic disaster from the variations in the price of wheat than from any other cause.

To understand the speculative system of grain marketing, a grain exchange may be defined as a place where a huge auction sale is conducted daily. Without going into intimate details of the mechanism of the system, it might be explained that the set-up provides insurance against loss for grain dealers, bankers and flour millers, but it provides no price insurance for the farmers--the men whose toil produced the product. The whole speculative system depends, for its successful operation, on the presence in the market of a substantial number of gamblers. That fact was brought out at the sittings of every governmental commission which has inquired into the speculative system of selling grain. It was also shown that the group of gamblers was composed mainly of ordinary people, mostly lacking in the knowledge of the system, who had been lured into the market in the vain hope of making fortunes for themselves. In the end, the evidence showed, these "moths" had their wings seared, as ninety-five per cent. of them were sure to lose. It is on the sacrifice of these ignorant victims of the gambling fever that the speculative system operates with any degree of smoothness.

In periods of wheat scarcity and feverish speculative outburst, the turnover on a large exchange is enormous. On March 13, 1925, total sales on the Chicago Grain Exchange reached nearly 150 million bushels of wheat. On that day the price of May wheat closed 14 3/4 cents lower than the closing price the previous day. On July 15, 1929, total sales on the Chicago exchange again reached close to 150 million bushels, and the price closed 8 cents higher than on the previous day. In a single year in which speculation is active, the turnover runs into billions of bushels, many times the actual grain production. Why should the disposal of this most precious food be based on a gigantic gambling device?

The theory of the speculative system of grain marketing is that when so-called over-production of wheat occurs, prices will drop so low that consumption will increase and also that a certain percentage of the farmers will be driven out of business. Then scarcity will occur, prices will rise and other farmers be lured back into wheat production. But things don't work out just like that. In the early 1930s, when wheat prices dropped so low that Alberta farmers were obtaining less than 20 cents a bushel for 1 northern, a strange thing happened. Consumption did not increase throughout the world

because other nations, desirous of protecting their farmers, maintained high domestic prices and, through tariffs and other restrictions, barred imports. Farmers in Western Canada did not go out of business, because there was nothing else for them to do. Governments were compelled to step in and by moratoriums and other devices protect the farmers. Said Dr. M. K. Bennett, of the Food Research Institute of Stanford University: "There is a bottom return to producers from a bushel of wheat below which governments seemingly cannot allow the price to fall because public opinion does not support them if they do.... If the return goes too low, social and political disturbances become more important than the economic disturbances that come if prices are allowed to go wherever economic forces send them."

Farmers of the prairie provinces are engaged in a constant struggle with Nature. In that process they take enough risks without being compelled to submit to a continual gamble when selling their grain. On the prairies drought and hail are the great terrors of all, but there are also early and late frosts, rust, cutworms, grasshoppers, swarms, and other insect pests. When one crop is lost it is a serious thing for a farmer. It would be like a worker losing fifty-two weeks' pay. Surely the farmers take enough risks without being compelled to depend for their returns on the insecurity of a gambling device for the marketing of their grain!

No other class in the national life would submit to the variations of the speculative system if their wages and salaries were based thereon. Any suggestion that such a system should be inaugurated would bring about a nation-wide strike and general economic paralysis. It simply could not be done. Yet there are some who insist that farmers must submit thereto.

95% Pure Speculation

The United States Commodity Exchange Authority has the right to examine transactions on exchanges in that country. They found out that in the crop year ending June 30, 1930, trading in wheat futures in the United States aggregated twenty billion bushels. Only one billion bushels, or five per cent. of the total trading, arose directly out of hedging operations. The remaining nineteen billion bushels represented the operations of those who were gambling in wheat or who were actively manipulating the market for their own advantage.

Some years ago a radio address on the subject "Is Future Trading Harmful to Agriculture" was made by Bernard J. Rothwell, president of the Bay State Milling Co., Winona, Minn., and Lawrenceburg (Ind.) Roller Mills Co. Extracts from this address are as follows:

"The original reason--and I believe the sole justification--for permitting trading in 'futures' was to provide, through hedging, a reasonable degree of protection to those engaged in the production and handling of crops or their products. It cannot seriously be argued that the purpose was to promote colossal gambling....

"Hedging of property already owned is a legitimate transaction, but I can conceive no right to sell property that does not belong to the seller, with the intention, and expectation, of

depressing its value, and in the attempt (at least implied) to injure its rightful owner. Wheat is the 'key' grain crop; to a large extent it regulates the price at which other grains sell.

"Even at the height of the farm movement--July to November--it is not the size of the wheat crop itself, or of the daily deliveries, with which the wheat grower has to contend. It is rather with the operations of huge scale speculators, selling 'short' wheat they do not own and never intend to own.

"All wheat is not hedged, though some of it may be hedged several times. A recent report to the Millers' National Federation showed that, of 122,000,000 bushels in hands of millers, less than 25 per cent was hedged in future trading markets. A 10 months' study by the department of agriculture showed that only 5 per cent of the transactions in 'futures' were hedges, while 95 per cent were purely speculative. The contention that unlimited, unrestricted speculation is necessary to provide adequate hedging is, therefore, upon its face absurd.....

"During the brief three and three-quarter hours daily session of the Chicago Board of Trade, wheat has often swung rapidly back and forth, 3¢, 5¢, 10¢ and, in one session, 14¢ a bushel, making it impossible for the farmer, the country grain buyer, the miller or the exporter, to tell within several cents per bushel the price of wheat at any particular moment.....

"The small cost of marketing grain from farm to buyer in terminal markets is often cited as evidence of the economy of the present marketing system; but such advantage is largely, if not wholly, offset by the constant fluctuations in price in such markets, which make uncertain the next price received by the shipper, that price being so much under or so much over that of the active 'future' at the moment.

"While the farmer is hauling his load from the field to the country elevator, the price may vary several cents per bushel. It is the net price he receives, rather than the selling cost per bushel, that is of importance to the grain grower."

Turgeon Report and Bracken Committee

Both the Stamp and Turgeon commissions (1931 and 1938) which investigated the open market system of grain selling, reported in favor of the continuance of same. Mr. Justice Turgeon says in his report:

"I am of the opinion that under what may be called normal conditions--open markets in the United Kingdom, a fair relationship between world supply and import demand, and no danger clouds on the immediate horizon--the government should remain out of the grain trade, and our wheat should be marketed by means of the futures market system (under proper supervision), and encouragement be given to the creation of co-operative marketing systems or Pools."

The Turgeon report and recommendations were presented to the government of Canada in the spring of 1938. The government then planned to put the recommendations into force but a situation

developed which prevented this happening. World supply and demand for wheat had been getting into a fair balance but the 1938 Canadian and world crops were unusually large and prices threatened to "hit the skids." The Wheat Board's minimum price for the 1937 crop was 87¢ and was cut to 80¢ for the 1938 crop.

At this juncture John Bracken, then premier of Manitoba, called a conference in Winnipeg, which was attended by representatives of farmer organizations, business associations and the grain trade. The opinion of this group was that the government should continue in the wheat business and the Wheat Board should be instructed to provide a floor price. A committee was formed to press such views on the government. The government finally agreed and announced a floor of 60¢ a bushel for the 1939 crop. A delegation from the Bracken organization journeyed to Ottawa and persuaded the government to increase the figure to 70¢. They said that without government support the price of wheat might well be 37¢ a bushel.

The Turgeon recommendations were forgotten and the government continued in the business of marketing wheat.

Why Avoid the Speculative Market?

If the speculative system of selling is so efficient and economical in the grain business, why is it not adopted by business in general? That query has never been answered effectively by the grain trade.

The flour millers do not sell flour on the speculative market. The milling business is an important Canadian industry and total production has reached close to 25 million barrels a year.

The production of oil in Alberta is approaching 100,000 barrels a day. In the United States over 10 million barrels of oil are sold daily but not on any speculative market.

Canadian pulp and paper interests, largest exporters of such products in the world, do not make sales on a speculative basis. Selling is done mainly on a contract basis.

Lead, zinc, copper and nickel, all of which are produced in great volume by Canadian mines, are not disposed of on the speculative market.

Farm implements, machinery, automobiles and such like, are sold on established prices. The same is the case with furniture, clothing and all other manufactured products. The prices of none of these are based on speculation.

Labor unions would never agree to wages set on a speculative market basis. Yearly contracts at established levels is the usual practice.

Railway freight and express rates are established on a determined basis and so are the rates for handling grain in elevators, for insuring and selling same.

Why restrict speculative marketing to grain producers? Why do the oil company, the lumber, pulp and paper owners, the mine

people, and the manufacturing corporations, avoid by every means in their power the sale of their products on anything resembling a speculative market?

That question requires an answer from supporters of the speculative system of grain marketing.

Government Participation in Marketing

There are those who say that farm people make a mistake in looking to the government for price protection for the sale of their products. Such critics maintain that farmers of the prairie provinces of Western Canada should be more concerned in campaigns to induce the federal government to bring down the tariff structure and thus reduce costs of farm operations.

For over a generation, the farmers of Western Canada maintained a continuous struggle for free trade. All that effort went for virtually nothing. In seeking to bring about free trade in this country the farmers are chasing a rainbow.

In all of the major groups of Canadian farm products - grains, livestock, dairy, poultry, fruits and vegetables - there are some products that are exported. Thus while average exports of farm products in Canada range from 20 per cent to 30 per cent of the total output, the prices of probably 80 per cent to 90 per cent of the output of Canadian farms have been dependent upon the prices in world markets. The unfairness to agriculture of such a situation lies in the fact that farmers must sell at prices largely based on an intensely competitive world market and buy on a highly protected domestic market.

Writing in the *Kelowna Greener and Provisioner*, the editor, Dalton J. Little, not so long ago discussed price floors for farm products in the following terms:

"To be realistic one must admit that either the state, as such, has a duty to perform in protecting all essential industries for the preservation of the economy of the country, and even our way of life; or that the law of the jungle should prevail. It is a matter of principle, of what is good for the greatest number.

"The state, not only in Canada, but in other countries, has assumed the responsibility for the preservation of the economic well-being of its people generally. It does so by creating artificial prices for commodities in the country through the collection of custom duties at ports of entry on the goods that would compete, price-wise, with comparable Canadian products.

"What then is more logical than government price support of farm products? It is simply another method of state intervention to preserve a basic industry in a condition of economic stability. ...The alternative is the unbridled play of the competitive system, without government interference or regulation - no tariffs, no embargoes, no floor prices, no quotas, no production control or regulation of any kind. There is surely no person in this day and age who would agree to such an alternative."

Professor G. L. Burton of the department of agriculture

forces appears to be the main difference between the price situation prevailing today and that prevailing at the end of the war of 1812, the American Civil War and World War 1."

Of course the pamphlet condemns government interference in economic affairs. It supports the idea that government controls introduce a new rigidity into the economy with increasing interference by the government and loss of liberty by the individual. But most farm people will agree that some loss of liberty is preferable to the experiences of a ruinous depression with all the misery such entails.

Manitoba Farmers Oppose Speculative Marketing

On November 24, 1951, Manitoba farmers got out in bitter winter weather to vote on a government sponsored coarse grains marketing plebiscite.

The question on the ballot was: "Do you wish to continue to sell your oats and barley as at present?" Of the 52,637 farmers entitled to vote 35,333, or 67 per cent, cast their ballots. Of that number 31,245, or 89 per cent, voted in favor of Wheat Board marketing of their coarse grains, and 3,857 voted in opposition.

The plebiscite was held because of the insistence of certain interests in Manitoba that the Wheat Board system of marketing oats and barley was unpopular among the farmers. Since August 1, 1949, the Wheat Board has handled the sales of all oats and barley delivered into commercial channels in the prairie provinces of Western Canada (Manitoba, Saskatchewan and Alberta). This action was taken at the request of the organized farmers, necessary legislation being passed by the federal government and required supplementary legislation by the provincial governments.

Premier Campbell, of Manitoba, said that if the farmers voted against the Wheat Board system his government would repeal the supplementary legislation for Wheat Board marketing of oats and barley, and would ask the federal government to do likewise.

A surprising feature of the voting was the number of farmers who turned out in bad weather. The extremely high percentage of votes cast against speculative marketing proved beyond question that farmers dislike such a method of marketing their grain.

QUOTATIONS

Gambling Brings Down Price

The Earl of Crawford, who was chairman of the British wheat purchasing commission during World War 1, said in 1930: "In Chicago they gamble in wheat, every housemaid gambles in wheat in Chicago. Nothing we do can prevent them gambling any more than anything can prevent us gambling here. In my opinion, however, year in and year out, the gambling in Chicago probably tends to reduce the price to the consumer here (Great Britain). When a dozen grain merchants are in and out of the market, nobody knows what is going on, and people gamble and lose, and we, on the whole, get our grain cheaper as a consequence."

Speculators Should Not Determine Prices.

Beverly Baxter, Canadian born member of the British House of Commons, in an article written in MacLean's magazine in 1942, outlined ten points which he suggested would constitute a charter for after-the-war industrialism.

Here is point 5: "Gambling in commodities should cease. It should be no longer possible for a speculator in London, Paris or New York to determine the price or movement of essential commodities."

Inefficient Pricing Function

Lord Keynes: On pricing function performed by commodity exchanges: "Assuredly nothing could be more inefficient than the present method by which the price is always too high or too low, and there are frequent meaningless fluctuations in the plant and labor forces employed."

Happy Human Relations

Dr. Ashley Montagu, chairman of the department of anthropology, Rutgers University: "If we are to have happy human relations we must have a society based on human relations and not on economics"

Strike an International Balance

Churchill: "Why should people work and toil and never have a full stomach? Why not strike an international balance sheet on surplus commodities? Give, share, produce, use. Must the Chinese peasant live forever on rice and scrap fish? Why should he?"

Speculative Market Needs Gamblers

Professor James E. Boyle, Cornell University, 1931: "Futures trading has been in use on the organized commodity exchanges in all commercial countries of the world for about 75 or 80 years. Futures trading in its most highly developed form, especially with its modern clearing house system, has been in use some 20 to 30 years."

"How wide a market is needed to provide ample hedging facilities? It is my conviction that a hedging market must be made up of at least 50 per cent pure speculation."

Speculation Exerts Vicious Influence

J. W. T. Duvell, former head of the United States Grain Futures Administration: "For many years Congress made attempts to pass laws prohibiting trading in futures. The first bill was introduced in 1884. It was nearly 40 years before such a measure was passed. This was the Futures Trading Act and became law September 24, 1921. On May 22, 1922, the Supreme Court declared the act unconstitutional. A new bill was drafted, the Grain Futures Act, and held constitutional. The Supreme Court said:

"The board of trade is engaged in a business affected with a national public interest, and is subject to national regulation as such. Congress may therefore reasonably limit the rules governing its conduct with a view to preventing abuses and securing freedom

from unjust discrimination in its operations.'

"The decision further stated that 'manipulation of grain futures for speculative profit, though not carried, on to the extent of a corner or complete monopoly, exert a vicious influence and produce abnormal and disturbing temporary fluctuations of prices that are not responsive to actual supply and demand, and discourage not only justifiable hedging but disturb the normal flow of actual consignments.'"

What Winnipeg Free Press Thinks

Winnipeg Free Press, April 1939: "If wheat is only worth 30¢ it should be sold for 30¢. To hold it off the market and to pretend it is worth more because the government has been induced to pay the farmers more for it is merely to confuse and deceive ourselves."

Gamblers Seldom Win

Stamp Report (page 50): "The evidence shows that many farmers and many of the public throughout the West at times gamble in wheat futures. They go into the market almost invariably as bulls on a rising market and go out almost invariably as losers. The farmer gambles in wheat more than anything else because his daily occupation largely centres around the production and marketing of wheat."

Doesn't Want U. S. Plan

Winnipeg Free Press, December 27, 1949: "Except for a few extremists, it has always been conceded here in Canada that government largesse on the scale of the United States parity system was wholly impracticable, one reason among many being the greatly higher ratio in Canada of farm output to total national production and of farm exports to domestic food consumption. This does not mean, however, that it is not the duty of the state to come to the aid of agriculture as it comes to the aid of every other industry in the country in time of great need. No one would advocate a return to Bennett buggies or 38¢ wheat. But the assistance should be planned to offset disaster such as the crop failures of the 1930s. In other words it should be thought of, not as a normal policy for normal times, but as an exceptional policy for exceptional times."

A Suckers' Game

Newsweek, January, 1950: The Commodity Exchange Authority issued some sobering figures for speculators who plunge in the grain market for the fast action they cannot get in stocks. Nine year records of 400,000 trades handled by a discontinued Chicago brokerage house showed that 6,598 speculators lost \$12,000,000. The profits of the other 2,184 speculators were only \$2,000,000. Merchants in the grain business fared better than farmers or other groups, but even so 71 per cent of them lost money.

The Fate of the Speculator

A flour miller in the United States wrote to the Northwestern Miller, published in Minneapolis, stating that some years ago he had asked many (grain) traders whether they had ever had a speculative customer who, in the long run, had made money, and he did

not find a single man who had had a profitable speculative customer.

Commenting on the letter, the editor of the Northwestern Miller said, "We have, it is true, known some who made money and kept it for a little while, but for the long run NO. And it is worthy of note that these exceptional "speculators" made their profits by being "short" rather than "long" in the market."

Note: The "short" speculator usually sells when the grain rush is on, thus helping to beat down prices.

Summary

To summarize the present situation with regard to speculative marketing, the following may be said:

1. Ever since the modern system of speculative grain marketing was put into effect covering a period of approximately 100 years, grain farmers have expressed resentment and mistrust of its operations. The reason therefor was the rapid changes and wide slants in prices which were characteristic of such markets, and the lack of a degree of price security and stability.

2. The dependence of speculative grain markets on the speculative element consisting mainly of an uninformed mass of people seeking, through gambling in grain futures, to make some easy money for themselves. That most of these speculators lose money has been definitely established and such a consideration constitutes a further weakness. As speculators are cleaned out a new crop must come along if the market is to function efficiently.

3. Changed conditions caused by two great world wars, the instability of national currencies, and the spread of socialism and communism has brought about a situation in which the free grain exchange cannot operate efficiently at all. The added factors of mechanization of agriculture and the application of science thereto thus increasing production, have also to be considered. Under mechanization grain crops can be harvested speedily and marketed within a few months. In 1947, 60 per cent of the total crop year's wheat marketing was delivered by the end of October.

4. The trend towards protection of agriculture by governments has become more pronounced with each passing year. This has resulted in comparatively high floor prices being established for agricultural products in such countries as the United States and also in Europe. Governments in those countries prefer to maintain a high domestic price for grain in preference to seeing their farmers ruined through the importation of low priced grain. This procedure prevents the free operation of grain exchanges.

5. The idea that over-populated and undernourished countries should be provided with food, as a war preventive if for no other reason, has spread throughout the world. This cannot be done in the speculative grain marketing system, where scarcity is rewarded with high prices and abundance with low prices.

6. In the last century the tide has turned against individualism and towards collectivism, and this has been advancing ever since. The reason therefor is the growing complexities of international capitalism with its recurrent crises. The trend has been towards more and more government interference with the objective of preventing alternating booms and depressions. Speculative grain exchanges do not fit into this pattern. There are no grain exchanges operating in Europe and Asia today, two continents which contain nearly 1 1/2 billion people, or 65 per cent of the world's population.